

AL. 1. 1440  
C. 2



*Credit*

*Union*

*Deposit*

*Guarantee*

*Corporation*

**Annual**

**Report**

**1998**

## Serving Alberta

### Deposit Guarantee Statement

The Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that this obligation of the Corporation is carried out.

### Vision

Financially strong and stable Alberta credit unions with cost effective protection for depositors.

### Mission

To regulate business practices in Alberta credit unions and guarantee deposits according to legislation.

### Primary Role

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Review, advise on, and where necessary, direct on sound business practices for credit unions.
- Monitor credit union financial performance and act quickly to improve credit union results and minimize risks.

### Number of Credit Unions in Alberta

Northwest	5
Northeast	2
Edmonton and area	21
North Central	4
Central	10
Calgary and area	24
Southern	<u>18</u>
Total number of credit unions	84



## Corporate Philosophy

### *How we conduct our business*

We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% deposit guarantee. We will operate efficiently and effectively in achieving our goals.

We recognize each credit union is an autonomous unit and unique in its operations. We will regulate business practices in Alberta credit unions. We will provide coaching to Alberta credit unions' boards and management to improve their skills. Where unsound practices or major issues are identified, we will work with the credit unions to help them correct or address these matters. In extraordinary circumstances, we will impose legislated sanctions resulting in a loss of credit union autonomy. When sanctions are imposed, we will work diligently with the credit union to promptly correct deficiencies and return autonomy as soon as possible.

We will maintain open communication with Alberta Treasury, Credit Union Central of Alberta and the credit unions to ensure a common understanding of each other's role.

### *How we treat our employees*

- We treat our employees with respect.
- We compensate our employees fairly, within any guidelines provided by the Government of Alberta. We provide our employees with competitive benefits.
- We believe ongoing training and education of our employees is an investment in the Corporation and their future.

## Contents

### Deposit

Guarantee Statement .....Cover

Vision.....Cover

Mission.....Cover

Primary Role .....Cover

Corporate Philosophy.....1

Contents.....1

Chair's Message .....2

1999 Goals .....3

1998 Goals, Strategies,  
and Performance Measures.....4

Achievements and Results .....5

Financial Summary .....6

Management's  
Responsibility .....7

Auditor's Report .....7

Balance Sheet .....8

Statements of  
Income and Equity .....9

Statement of Cash Flows.....10

Notes to the  
Financial Statements .....11

Schedule of  
Administration  
Expenses .....16

Board of Directors  
and Committees .....Cover

## Chair's Message

The Credit Union Deposit Guarantee Corporation's major focus in 1998 continued to be on credit unions meeting the capital requirements set out in the *Credit Union Act* by Oct. 31, 1999.

Credit unions with the greatest challenge in meeting the requirements submitted action plans that management and the Board reviewed in September 1998. I am pleased to report that by Oct. 31, 1998, total credit union consolidated capital *exceeded* requirements. Individually, 83 per cent of credit unions had met their required levels (1997 - 81%). The Board anticipates continued improvement in meeting capital adequacy requirements, thanks to the efforts of credit union boards and employees.

### *Lending communications*

As part of its deposit guarantee mandate, the Corporation sets individual credit union lending limits and maintains a loan approval process for those loans which exceed these limits. In 1998, the Corporation completed and issued updated *Lending Guidelines* to all credit unions. We greatly appreciate the valuable input received from credit union system representatives who assisted us.

We also issued several *Lending Bulletins* to clarify and simplify administration. These communications should help to reduce the extent of correspondence credit unions receive on loan requests. Our intent is to simplify procedures whenever possible.

### *Year 2000 issue*

The Corporation and the credit union system have been diligently working on the year 2000 issue for several years. While the Corporation's computer systems and equipment are of low risk in case of non-compliance, they are up to date well in advance of December 1999. At the same time, we have a representative on the credit union System Y2K Task Force to share information and provide support. The Board also has a Y2K task force to review credit union progress on this important issue. Y2K is, and will be, a regular Board agenda item throughout 1999. The Corporation and the credit union system have made significant progress in preparing for the new millennium. The focus will be on developing contingency plans to deal with situations which could arise from those third parties who may not be fully compliant by the critical date.

### *1998 results*

Pages 4 and 5 of this year's Annual Report summarize results in achieving 1998 goals and strategies as set out in our performance standards. We have accomplished a great deal in the past year and, on behalf of the Board, I would like to commend the Corporation's employees for their dedication to achieving our 1998 business plan goals.

### *Board governance*

The Lieutenant Governor in Council of Alberta appoints the Corporation's seven-member Board of Directors.

I wish to offer many thanks, on behalf of the Corporation, for the commitment and dedication of each Board member. In our efforts to continually improve board governance and the information reported to the Board, the Audit Committee requested the Auditor General's staff to review the Corporation's examination procedures for credit unions, including the reporting of the examination results and other quarterly reports to the Board. We received the Auditor General's report during the year and have implemented most of his recommendations. This was a very useful review and it confirmed that our examination process is focusing on the appropriate risk areas. More and more, corporate board governance is recognized as very important to industry and we continually examine our board processes to improve governance performance.



## 1999 Goals and Strategies

Although business planning is not a new function in the corporate environment, it has increasingly become a most valuable tool to guide an organization in achieving its desired outcomes. The Corporation reviewed its 1998 business plan, and made changes to better reflect its desired direction for the 1999 business plan year.

While capital adequacy will continue to be a major focus in '99, the Corporation will be more involved in monitoring credit union action plans developed for 1999. Soundness, relating to credit unions' management of Y2K plans, is a higher priority with the millennium fast approaching. In 1998, the Corporation developed a formal communication plan. In '99, we will establish new strategies focusing on innovation and utilization of e-mail and internet access. While, as a regulator, we must maintain cost-effective protection, our goal in this area is to add value to our regulatory processes.

### **MacKay Task Force Report**

The upcoming review of financial services legislation led to the MacKay Task Force Report. As well, recent announcements of planned bank mergers and the credit union system's own restructuring initiatives, result in credit unions being faced with many challenges.

As the MacKay Task Force Report points out, "The credit union system will need a renewed vision in order to meet these challenges. Neither the task force nor government can provide this vision, but the regulatory framework can better support the decisions that are made by the system." We look forward to working with the credit union system to meet these challenges.

It has been an honour and a pleasure to serve the Corporation and its Board of Directors during the past year. The solid foundation upon which Alberta credit unions operate will continue to provide for sound business practices and opportunities to grow in 1999 and into the new millennium.

**Bob Splane**  
Chair, Board of Directors

## 1999 Goals

### **Goal #1 - Capital Adequacy**

To regulate credit union compliance with the minimum capital adequacy levels (Goal: 100 per cent).

#### **Strategy**

Monitor progress on specific action plans of those credit unions not meeting the minimum capital adequacy levels.

### **Goal #2 - Soundness**

To help strengthen Alberta credit unions.

#### **Strategies**

Monitor and assess the progress of credit unions in implementing their Year 2000 plan and developing contingency plans.

Identify and address risks affecting the financial strength of Alberta credit unions.

### **Goal #3 - Communication**

To achieve an improved understanding by credit union directors and management of the Corporation's role.

#### **Strategies**

Establish a formal communications strategy for 1999.

Increase the effectiveness of communications by exploring new techniques and technologies.

### **Goal #4 - Cost-effective Protection**

To adopt a flexible and cost-effective approach to regulating Alberta credit unions.

#### **Strategies**

Maintain the equity in the Deposit Guarantee Fund.

Evaluate new methods to simplify and add value to regulatory processes.



# 1998 Goals, Strategies, and Performance Measures

## 1. Goal To maximize the number of credit unions which will achieve legislated capital requirements.

### Strategies

- Formulate a corporate position on our involvement with credit unions that will not achieve legislated capital levels.
- Develop specific action plans for each credit union which may not achieve capital adequacy by October 31, 1999.

### Performance Measures

- Total credit union capital as a percent of total adjusted assets and as a percent of total risk weighted assets.
- Credit unions that meet the minimum capital adequacy requirements, (Target 95%).

## 2. Goal To achieve a common understanding of the Corporation's role through proactive communication.

### Strategies

- Establish a formal communication plan.
- Document the agreed upon roles of Alberta Treasury, Credit Union Central, and the Corporation.

### Performance Measures

- A clearer understanding by credit unions of the Corporation's role confirmed by a consultation survey.

## 3. Goal To strengthen strategic advisory services.

### Strategies

- Identify the key strategic advisory services required by the credit union system.
- Ensure credit unions have access to the required strategic advisory services.

### Performance Measure

- Through discussions with Alberta Treasury and Credit Union Central, and a survey of credit unions, confirm the strategic advisory services required.

## 4. Goal To ensure a regulatory environment which is both flexible and secure.

### Strategies

- To provide Corporation input to government on regulatory change that reduces the regulatory burden on credit unions while maintaining sufficient regulation to control the risk to the Deposit Guarantee Fund.
- Maintain the Deposit Guarantee Fund at a level adequate with the needs of the credit union system.
- Formulate a corporate position on the evaluation of Sound Business Practices.
- Develop a coordinated, consistent process for monitoring credit union performance and compliance.

### Performance Measures

- Deposit Guarantee Fund equity maintained at one per cent of total credit union assets.
- A clear understanding by credit unions of the importance of Sound Business Practices confirmed by a consultation survey.
- Percent of recommendations on legislated and Sound Business Practices complied with.



## Achievements and Results

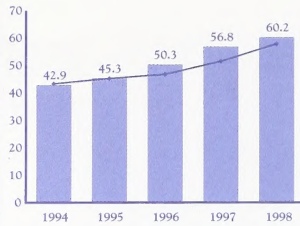
■ Formulated the Corporation's policy regarding credit unions that will not have the required capital.			
■ Credit unions that meet the minimum capital adequacy requirements. (Target 95%)	96	97	98
	71%	81%	83%
■ Total credit union capital as a per cent of total adjusted assets (minimum = 4%)	96	97	98
	5.0	5.8	6.4
and as a percentage of total risk weighted assets (minimum = 8%).	9.6	10.6	11.9

- Developed a communications plan and undertook communication activities in that direction.
- Issued six lending bulletins to credit unions.
- Increased communication with non-supervised credit unions.
- Developed and presented a Credit Union Director Achievement module, *CUDGC - Orientation* on the Corporation's role and history.

- Purchased model policies from Saskatchewan (Credit Union Organizational Support) and issued revised (tailored to Alberta legislation) copies to credit unions.
- Participated on the credit union system Y2K Task Force.
- Provided advice on various credit union amalgamations and dissolutions.
- Facilitated five credit union planning sessions.
- Consultation survey not completed yet (target date - June 1999). Survey is still in planning stage, to be sure it provides useful information.

■ Deposit Guarantee Fund equity (as a % of credit union assets) maintained	96	97	98
	1.12	1.18	1.15
■ Approved the third reduction in the assessment rate (effective November 1) from .18% to .17% of credit union deposits and borrowings.			
■ Formulated a position to provide resource material and developed a Sound Business Practices Director's Reference Guide (currently in testing phase).			
■ Reduced length of loan approval replies.			
■ Completed and issued the updated <i>CUDGC Lending Guidelines</i> .			
■ Conducted examinations of 27 credit unions.			
■ Completed three portfolio reviews.			
■ Formalized the process for monitoring credit union compliance.			
■ Provided input on regulatory changes to the <i>Credit Union Act</i> .			

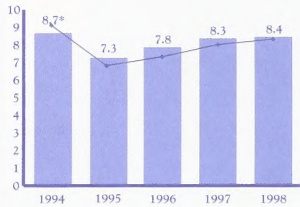
## Financial Summary



### 1. Deposit Guarantee Fund - Equity

Available to provide the second level of deposit protection for members of Alberta credit unions. Credit union capital provides the first level of protection.

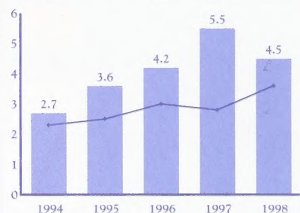
The Fund's equity level exceeded budget because of improved investment revenue and net income.



### 2. Deposit Guarantee Fund - Assessment Revenue

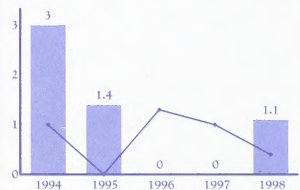
Assessment revenue increased because of growth in the total assessment base (deposits and borrowings) for all credit unions.

The increased assessment revenue was offset by the reduced assessment rate charged to credit unions (from .18 to .17 per cent of deposits and borrowings) effective November 1, 1998.



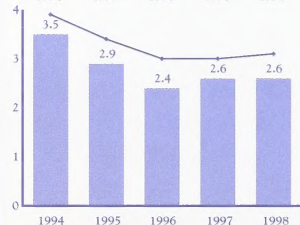
### 3. Deposit Guarantee Fund - Investment Revenue

Investment revenue exceeded budget as a result of gains realized through investment trading by contracted investment managers.



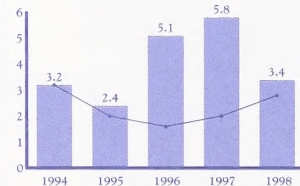
### 4. Deposit Guarantee Fund - Financial Assistance

The increase in financial assistance for 1998 results mainly from the payment of a 1993 financial assistance obligation of \$1,357,000 to an amalgamated credit union.



### 5. Deposit Guarantee Fund - Administration Expense

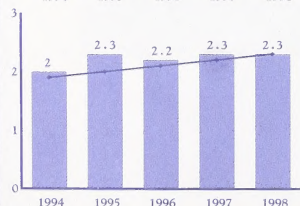
Administration expenses for 1998 have been maintained at approximately the same level as in 1997, through cost savings in many areas.



### 6. Deposit Guarantee Fund - Net Income

Net income exceeded budget because:

- gains were realized from investment trading; and
- administration expenses were lower than expected.



### 7. Master Bond Fund - Equity

Available to offset losses above credit union deductible for operational risks such as fidelity, robbery, and forgery claims. A reinsurance policy covers claims exceeding \$85,000.

The Fund's equity was maintained close to the target level of \$2.2 million.



## Management's Responsibility

The financial statements of Credit Union Deposit Guarantee Corporation, and all other information contained in the annual report, are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with generally accepted accounting principles. Preparation of the statements necessarily involves the use of estimates which are made using careful judgement.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through an Audit Committee, composed entirely of directors who are not officers or employees of the Corporation. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit Committee reviews the annual financial statements, as well as issues related to them. The Audit Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit Committee's review of financial reports includes an assessment of key management estimates and judgements material to the financial results.

The external auditor conducted an audit of these financial statements in accordance with generally accepted auditing standards. The external auditor has full and unrestricted access to the Audit Committee to discuss his audit findings as to the integrity of the Credit Union Deposit Guarantee Corporation's financial reporting and adequacy of internal controls.

The Auditor General has examined these financial statements and his report follows.

J. Laitner  
Chief Executive Officer

E. Friedrich, CA  
Chief Financial Officer

February 24, 1999

## Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 1998 and the statements of income and equity, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and the results of its operations, and its cash flows for the year then ended, in accordance with generally accepted accounting principles.



Peter Valentine, FCA  
Auditor General

Edmonton, Alberta  
February 24, 1999

## Balance Sheet

December 31, 1998 (in '000s)

	1998	(restated) 1997 (Note 3)
<b>Assets</b>		
Cash	\$ 1,001	\$ 944
Investments (Note 4)	70,150	67,348
Accrued interest receivable	573	459
Due from credit unions	1,466	1,451
Loans receivable	278	483
Other assets (Note 5)	1,072	701
Capital assets (Note 6)	110	110
	<b>\$74,650</b>	<b>\$71,496</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 363	\$ 727
Accrual for financial assistance (Note 7)	5,515	5,865
Deferred revenue	895	928
Amounts due to and investment in S C Financial Ltd. (Note 8)	5,406	4,892
	<b>12,179</b>	<b>12,412</b>
Commitments and contingencies (Note 10)		
<b>Equity</b>		
Deposit Guarantee Fund (Note 3)	\$60,167	\$56,782
Master Bond Fund	2,304	2,302
	<b>62,471</b>	<b>59,084</b>
	<b>\$74,650</b>	<b>\$71,496</b>

The accompanying notes and schedule are part of these financial statements.



**Statements of Income and Equity**

For the year ended December 31, 1998 (in '000s)

	1998 Budget	1998 Actual	(restated) 1997 Actual (Note 3)
<b>Deposit Guarantee Fund</b>			
<i>Revenue:</i>			
Interest	\$ 3,604	\$ 4,532	\$ 5,479
Deposit guarantee assessments	8,275	8,412	8,295
Recovery of special assistance (Note 9)	102	151	90
	<b>11,981</b>	<b>13,095</b>	<b>13,864</b>
<i>Expense:</i>			
Interest and bank charges	29	23	25
Provision for (recovery of) financial assistance (Note 7)	434	1,149	(257)
Special contribution (Note 8)	5,347	5,409	4,912
Administration (Schedule 1)	3,104	2,596	2,580
	<b>8,914</b>	<b>9,177</b>	<b>7,260</b>
<i>Income before income taxes</i>	3,067	3,918	6,604
<i>Income taxes (Note 11)</i>	310	533	796
<i>Net income for the year</i>	2,757	3,385	5,808
<i>Equity at beginning of year (Note 3)</i>	55,032	56,782	50,974
<i>Equity at end of year</i>	<b>\$57,789</b>	<b>\$60,167</b>	<b>\$56,782</b>
<b>Master Bond Fund</b>			
<i>Revenue:</i>			
Assessments	\$ 880	\$ 582	\$ 530
Interest	75	132	98
	<b>955</b>	<b>714</b>	<b>628</b>
<i>Expense:</i>			
Insurance premium	571	522	463
Administration	150	150	150
Claims	200	40	(74)
	<b>921</b>	<b>712</b>	<b>539</b>
<i>Net income for the year</i>	34	2	89
<i>Equity at beginning of year</i>	2,241	2,302	2,213
<i>Equity at end of year</i>	<b>\$ 2,275</b>	<b>\$ 2,304</b>	<b>\$ 2,302</b>

**Statement of Cash Flows***For the year ended December 31, 1998 (in '000s)*

	1998 Budget	1998 Actual	1997 Actual
<b>Operating Activities</b>			
Assessments received	\$ 8,982	\$ 8,946	\$ 8,785
Interest received	3,653	4,513	5,615
Loan recoveries received	40	242	120
Special assistance received	102	151	90
Interest and bank charges paid	(29)	(23)	(25)
Claim recoveries (paid)	(200)	(40)	74
Income taxes paid	(821)	(1,252)	--
Financial assistance recoveries (paid)	(499)	(1,499)	22
Paid to suppliers and employees	(3,795)	(3,246)	(3,299)
Special contribution paid	(5,030)	(4,895)	(4,650)
<b>Cash flows from operating activities</b>	<b>\$ 2,403</b>	<b>\$ 2,897</b>	<b>\$ 6,732</b>
<b>Investing Activities</b>			
Purchase of investments, net	(2,256)	(2,802)	(8,993)
Purchase of capital assets	(158)	(38)	(48)
Proceeds on disposal of capital assets	11	--	16
<b>Cash flows from investing activities</b>	<b>(2,403)</b>	<b>(2,840)</b>	<b>(9,025)</b>
<b>Net increase (decrease) in cash</b>	<b>--</b>	<b>57</b>	<b>(2,293)</b>
Cash at beginning of year	650	944	3,237
<b>Cash at end of year</b>	<b>\$ 650</b>	<b>\$ 1,001</b>	<b>\$ 944</b>



## Notes to the Financial Statements

December 31, 1998

### Note 1

#### *Authority and purpose*

The Credit Union Deposit Guarantee Corporation (the "Corporation"), operates under the authority of the *Credit Union Act*, Chapter C-31.1, Statutes of Alberta, 1989, as amended. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. *The Credit Union Act* provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 1998 credit unions in Alberta held deposits totalling \$4,771,124,000. Supervised credit unions received assistance, support and direction in planning, policy and operational matters from the Corporation.

In 1986, S C Financial Ltd. was incorporated under the *Alberta Business Corporations Act* for the purpose of providing \$335,000,000 of deficit financing assistance to credit unions under supervision. All of the outstanding shares of S C Financial Ltd. are held by the Corporation (Notes 2(c) and 8).

The Corporation guarantees the interest on the S C Financial Ltd. debentures issued in exchange for Stabilization Preferred Shares of the credit unions and the interest is funded by the Province pursuant to its indemnification. Accordingly, the obligation of the Corporation pursuant to its guarantee is not reported in these financial statements.

### Note 2

#### *Significant accounting policies and reporting practices*

##### *(a) Basis of presentation*

These financial statements have been prepared in accordance with generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The Deposit Guarantee Fund enables the Corporation to guarantee the repayment of all deposits with credit unions, its primary objective. The Deposit Guarantee Fund's statement of income includes assessments received from credit unions, assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to credit unions under a policy administered by the Corporation. A credit union may claim a maximum of \$100,000 for directors liability claims and \$85,000 for other claims, less its deductible, which is payable out of the Master Bond Fund; a reinsurance policy insures the amount of the claim that exceeds \$100,000 or \$85,000, respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, interest income, premiums paid for the reinsurance policy, administration fee, and claims.

The Corporation may use all of its assets to support its primary objective.

##### *(b) Use of estimates*

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment, and Master Bond Fund claims (expected and unreported). The Corporation reviews these estimates annually. Actual amounts could differ from those estimates depending upon certain future events and uncertainties.

*(c) Non-consolidation of S C Financial Ltd.*

The financial statements of the Corporation's wholly owned company, S C Financial Ltd., have not been consolidated with these financial statements since increases or decreases in the equity of S C Financial Ltd. do not accrue to the benefit of the Corporation.

*(d) Cash*

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF which varies depending on prevailing market interest rates.

*(e) Investments*

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses realized on disposal of investments are included in interest revenue.

*(f) Loans receivable*

Impaired loans acquired as a result of credit union merger or dissolution proceedings are recorded at estimated net realizable value. As future cash flows cannot be determined with reasonable reliability, estimated net realizable values are based on the fair value of security underlying the loans, net of expected costs of realization and disposal. Annually, management reviews the adequacy of the allowance for loan impairment on a loan by loan basis and adjusts the allowance to an amount considered adequate to provide for expected loan losses. No portion of cash received on an impaired loan is recorded as interest income until such time as any allowances have been reversed and the principal has been fully recovered.

*(g) Capital assets*

The following rates are designed to amortize the cost of capital assets over their estimated useful lives:

Furniture and equipment	five-year straight-line
Computer equipment	30 per cent declining-balance
Computer software	one year straight-line
Leasehold improvements	Straight-line over lease term

*(h) Income taxes*

For the current year, the Corporation retroactively changed its method of recording income taxes from the tax allocation basis to the tax liability method. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

*(i) Insurance claims*

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported claims. It makes an additional accrual of the estimated losses from unreported claims based on the last three years' average actual loss experience.

*(j) Accrual for financial assistance*

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for assistance becomes likely and it can reasonably estimate the amount.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the credit union system. Future economic conditions are not predictable with certainty and actual losses will vary from management's estimate.



**(k) Fair value of financial instruments**

Most financial instruments are valued at their carrying amounts included on the balance sheet which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, loans receivable, accounts payable and accrued liabilities, accrual for financial assistance, and amounts due to and investment in S C Financial Ltd. The fair values of investments are disclosed in Note 4.

**Note 3**

**Prior period adjustment**

The Corporation retroactively changed its method of recording income taxes to the tax liability method. As a result of this retroactive change, 1998 other assets has been increased by \$117,000 (1997 - \$155,000) (Note 5) and income tax expense has been increased by \$38,000 (1997 - \$427,000) (Note 11).

During the year, the Corporation also retroactively applied previously unused loss carry-forwards resulting from amending prior years' tax returns, to reduce the previous year's income tax provision by \$227,000 and increase the 1998 equity by the same amount. As a result of this change, accounts payable has been reduced by \$227,000 and income tax expense has been reduced by \$227,000.

**Deposit Guarantee Fund (in '000s)**

**Equity at beginning of year:**

	1998	1997
As previously reported	\$ 56,400	\$ 50,392
Prior period adjustment	382	582
<b>As restated</b>	<b>\$56,782</b>	<b>\$50,974</b>

**Note 4**

**Investments (in '000s)**

	Maturities			1998		1997	
	Within 1 Year	Over 1-5 Years	Over 5-10 Years	Carrying Value	Market Value <sup>2</sup>	Carrying Value	Market Value <sup>2</sup>
Securities issued or guaranteed by:							
Canada	\$ -	\$16,425	\$23,974	\$40,399	\$41,287	\$42,020	\$42,545
Provinces	-	15,152	6,521	21,673	21,888	21,697	21,729
Notes and term deposits issued by financial institutions:	7,963	-	-	7,963	7,960	3,516	3,490
	<b>7,963</b>	<b>31,577</b>	<b>30,495</b>	<b>70,035</b>	<b>71,135</b>	<b>67,233</b>	<b>67,764</b>
Shares of Credit Union Central Alberta Ltd.	-	-	100 <sup>1</sup>	100	100	100	100
Shares of Co-operative Trust Company of Canada	-	-	15 <sup>1</sup>	15	15	15	15
<b>Total</b>	<b>\$7,963</b>	<b>\$31,577</b>	<b>\$30,610</b>	<b>\$70,150</b>	<b>\$71,250</b>	<b>\$67,348</b>	<b>\$67,879</b>
<b>Effective book yield</b>	<b>4.85%</b>	<b>5.35%</b>	<b>5.32%</b>	<b>5.28%</b>	<b>-</b>	<b>5.46%</b>	<b>-</b>

1. These securities have no specific maturity.

2. Market value is calculated by using independent pricing sources and Canadian investment dealers.

The market value of the investments is subject to fluctuation as a result of normal market risk. The principle factor influencing the market value is the prevailing rate of interest. An increase of one per cent in interest rates will result in a decrease of approximately \$692,000 (1997 - \$652,000) in the market value of the total investments; and conversely, a decrease of one per cent in interest rates will result in an increase in the market value of the same amount.

## Note 5

### *Other assets (in '000s)*

	1998	1997
Prepaid expenses	\$ 567	\$ 546
Income taxes recoverable	388	-
Future income taxes recoverable (Note 3)	117	155
<b>Total</b>	<b>\$1,072</b>	<b>\$701</b>

## Note 6

### *Capital assets (in '000s)*

	1998	1997
Furniture and equipment	\$382	\$ 377
Computer equipment	262	269
Computer software	36	29
Leasehold improvements	63	63
	743	738
Less accumulated amortization	(633)	(628)
<b>Net book value</b>	<b>\$110</b>	<b>\$110</b>

## Note 7

### *Accrual for financial assistance*

To fulfill the mandate described in Note 1, the Corporation assists credit unions experiencing financial difficulties when and as required. The Corporation monitors certain other credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance the amount of which, if any, is undeterminable at this time.

As part of an amalgamation arrangement, the Corporation committed in 1993 to provide financial assistance in an amount not to exceed \$1,357,000. This amount was paid in full to the credit union during the year.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

	1998 (in '000s)	1997
<b>Accrual for financial assistance:</b>		
Balance at beginning of year	\$ 5,865	\$ 6,100
Provision for (recovery of) financial assistance	1,075	(235)
(Paid) during year	(1,425)	-
<b>Balance at end of year</b>	<b>\$ 5,515</b>	<b>\$ 5,865</b>
<b>Provision for (recovery of) financial assistance:</b>		
Financial assistance (recoveries), net of loan loss provisions (recoveries)	\$ 74	\$ (22)
Provision for (recovery of) financial assistance	1,075	(235)
<b>Provision for (recovery of) financial assistance</b>	<b>\$ 1,149</b>	<b>\$ (257)</b>

## Note 8

### *Amounts due to and investment in SC Financial Ltd. (in '000s)*

	1998	1997
Balance at beginning of year	\$ 4,892	\$ 4,630
Payment of previous year's special contribution	(4,892)	(4,630)
Special contribution current year	5,409	4,912
Special assistance due	(2)	(19)
	\$ 5,407	\$ 4,893
Shares	(1)	(1)
<b>Balance at end of year</b>	<b>\$ 5,406</b>	<b>\$ 4,892</b>

The special contribution is an annual amount payable by the Corporation under the Credit Union Restructuring Agreement. It is equal to 0.11 per cent of credit union deposits and borrowings and is payable to S C Financial Ltd., as directed by the Province, until the year 2010.

## Note 9

### *Recovery of special assistance*

In 1989, the Corporation provided deficit assistance to supervised credit unions totalling \$12,524,000. It may recover portions of this assistance based on a percentage of the credit unions' annual net income. The credit unions repaid \$151,000 during the year (1997-\$90,000) and \$2,581,000 to date.



**Note 10****Commitments and contingencies****(a) Lease commitments**

The Corporation is committed to a non-cancellable operating lease for business premises totalling \$345,000.

The following amounts represent minimum payments over the next three years:

1999	\$158,000
2000	\$160,000
2001	\$ 27,000

**(b) Litigation**

There are legal proceedings pending against the Corporation which arise from normal business activities. Management of the Corporation believes that the resolution of these proceedings will not be material to the financial position of the Corporation.

**Note 11****Income taxes**

The Corporation is a deposit insurance corporation for income tax purposes. Its income excludes assessments and no deduction may be made for financial assistance paid on behalf of member credit unions. Income taxes are provided for at a rate of approximately 28% of earnings subject to tax.

At December 31, 1998 the Corporation had tax values of capital assets in excess of related book values of approximately \$418,000 (1997-\$552,000), which are reflected in these financial statements as future income taxes (Note 5).

(in '000s)

	1998	1997
Current income taxes	\$ 495	\$ 369
Future income taxes (Note 3)	38	427
<b>Income taxes</b>	<b>\$533</b>	<b>\$796</b>

**Note 12****Directors' and management remuneration**

(in '000s)

	Director Fees or Salary <sup>1</sup>	Benefits and <sup>2</sup> Allowances	1998 Total	1997 Total
Chair <sup>4</sup>	\$ 33	\$ -	\$ 33	\$ 40
Board Members <sup>4</sup>	48	-	48	36
Chief Executive Officer	\$ 135	\$ 21	\$ 156	\$ 141
Senior management:				
Chief Financial Officer	89	16	105	101
Senior Manager, Operations	75	9	84	77
Senior Manager, Credit <sup>3</sup>	73	10	83	80
Manager, Examinations	65	8	73	66

- Salary includes regular base pay and bonuses.
- Employer's share of all employee benefits and contributions made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, health care, dental coverage, vision coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability, professional and club memberships, staff fund, automobile allowance, and vacation payouts.
- The 1998 amounts represent one employee from January 1 to August 31 with \$50,000 in salary and \$8,000 in benefits, and another employee from September 1 to December 31 with \$23,000 in salary and \$2,000 in benefits.
- The Chair and Board Members are paid on per diem basis for preparation and meeting time. The Deputy Provincial Treasurer is a Board Member but receives no remuneration from the Corporation.

**Note 13****1998 Budget**

The 1998 budget was approved by the Board of Directors on September 30, 1997.

**Note 14****Comparative figures**

The 1997 figures have been restated where necessary to conform to 1998 presentation.

**Note 15****Uncertainty due to year 2000 issue**

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failures. Even when management devotes time and effort to assessing the effects of the year 2000 issue and implementing a year 2000 plan, as is the case with the Corporation, it is not possible to be sure that all aspects of the year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers and other third parties, will be fully resolved in time.

**Note 16****Approval of financial statements**

The Board of Directors has approved these financial statements.

**Schedule 1****Schedule of Administration Expenses**

*For the year ended December 31, 1998 (in '000s)*

	1998 Budget	1998 Actual	1997 Actual
Deposit Guarantee Fund			
Salaries and benefits (Note 12)	\$ 2,274	\$ 2,102	\$ 2,062
Staff travel	250	164	132
Rental charges	170	128	157
Office	123	97	115
Board and committee fees (Note 12)	122	81	76
Professional fees	110	70	76
Other	89	50	55
Amortization	82	38	43
Board and committee expenses	34	16	14
	3,254	2,746	2,730
Allocation to Master Bond Fund	(150)	(150)	(150)
	<b>\$ 3,104</b>	<b>\$2,596</b>	<b>\$ 2,580</b>



## Board of Directors and Committees

### Board of Directors

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

**Bob Splane, Chair**, A corporate director, Boyle, Alberta

**Mary Arnold, FCA, Vice Chair**, Arnold Consulting Group Ltd., Edmonton, Alberta

**Bob Campbell**, The nominated representative from the credit union system and a former general manager of Parkland Savings & Credit Union Ltd., Red Deer, Alberta

**Ron Gilmore, CMC**, Management Consultant, Gilmore Systems Ltd., Calgary, Alberta

**John Henry**, A retired bank executive, Calgary, Alberta

**Rod McDermand**, A corporate director, Alix, Alberta

**Al O'Brien**, Deputy Provincial Treasurer of the Province of Alberta, Edmonton, Alberta

### Committees

#### Audit (Committee of the Board)

This committee acts as a bridge between the Board of Directors and the auditors in overseeing the financial reporting content and process, the appropriate systems of internal control, and the independent audit processes (subject to the *Auditor General Act*). The functions of this committee are set out in section 86 of the *Credit Union Act*. The committee also reviews the systems of internal control to ensure compliance with legal, ethical and regulatory requirements and effectiveness.

<b>M. Arnold, Chair</b>	<b>A. O'Brien</b>
<b>R. Gilmore</b>	<b>B. Splane</b>
<b>R. McDermand</b>	

#### Finance (Committee of the Board)

This committee monitors the financial performance of the Corporation and reports to the Board of Directors. The functions of this committee are set out in Section 80 of the *Credit Union Act*. The committee also approves certain expenditures as assigned by the Board and recommends financial policies of the Corporation.

<b>M. Arnold, Chair</b>	<b>A. O'Brien</b>
<b>R. Gilmore</b>	<b>B. Splane</b>
<b>R. McDermand</b>	

### Credit

The main function of this committee is to establish loan approval limits for each credit union and approve loans of credit unions which exceed these limits and the authority levels delegated to officers of the Corporation. This committee also monitors the Corporation's Credit Department lending approval function and the administration of those loans acquired from credit unions to ensure sound lending principles are maintained.

<b>J. Henry, Chair</b>	<b>B. Splane</b>
<b>M. Arnold</b>	<b>J. Laitner</b>
<b>B. Campbell</b>	



3 3286 51898836 1

**For more information contact:**

***Credit Union Deposit Guarantee Corporation***

2340 Manulife Place

10180 - 101 Street

Edmonton, Alberta T5J 3S4

Phone (780) 428-6680

Fax (780) 428-7571